

Message Text

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TAGS: OVIP (KISSINGER)

SUBJECT: PRESS MATERIAL

PLEASE PASS RODMAN/ADAMS/BORG FOR SECRETARY KISSINGER

1. HERewith FULL TEXT RAY VICKER EDITORIAL, THURSDAY, MARCH 6 WALL STREET JOURNAL, HEADLINED "CARTELIZING COMMODITY PRICES."

2. SECRETARY OF STATE HENRY KISSINGER'S OIL FLOOR PRICE SCHEME MAY HAVE AN UNINTENDED ADVERSE BOOMERANG EFFECT ON THE UNITED STATES IN AREAS FAR REMOVED FROM PETROLEUM. IT COULD STIMULATE AN ALREADY MOUNTING DRIVE FOR WORLD COMMODITY AGREEMENTS COVERING A WHOLE HOST OF PRODUCTS AND AIMED DIRECTLY AT COMPELLING THE WESTERN INDUSTRIAL WORLD AND JAPAN TO PAY MUCH HIGHER PRICES.

3. "IF THERE IS GOING TO BE A FLOOR PRICE UNDER OIL, AND WE THINK THE PRESENT PRICE LEVEL IS A GOOD AREA FOR INITIATING IT, THEN IT IS GOING TO BE DIFFICULT TO ARGUE UNCLASSIFIED

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AGAINST FLOOR PRICES UNDER SOME OF THE BASIC COMMODITIES WHICH MEAN SO MUCH TO THE THIRD WORLD COUNTRIES WHICH EXPORT THEM," SAYS AN ALGERIAN GOVERNMENT SOURCE HERE. ALGERIA'S PRESIDENT, HOUARI BOUMEDIENNE IS A LEADER IN THE

CURRENT CAMPAIGN TO REVISE THE WORLD'S ECONOMIC STRUCTURE THROUGH CARTELIZATION OF COMMODITIES. WORLD COMMODITY AGREEMENTS AREN'T NEW, OF COURSE. EVER SINCE THE FOOD AND

AGRICULTURE ORGANIZATION WAS LAUNCHED IN 1945 MOVES HAVE BEEN UNDERWAY TO REPLACE THE FREE MARKET SYSTEM WITH THE ALLEGED WISDOM OF COMMODITY PLANNERS. SCHEMES HAVE BEEN LAUNCHED WITH INDIFFERENT SUCCESS IN WHEAT, COCOA, COFFEE, TIN AND A FEW OTHER AREAS. GENERALLY, THE UNITED STATES HAS GIVEN ONLY LUKEWARM SUPPORT TO ANY OF THESE IDEAS, PREFERRING TO ALLOW THE FREE MARKET TO OPERATE.

4. MORE OFTEN THAN NOT; THE PLANS HAVE FOUNDERED BECAUSE PRODUCERS WANTED A MUCH HIGHER PRICE THAN THE FREE MARKET WOULD EVER ALLOCATE, WHILE CONSUMERS WANTED AS LOW A PRICE AS THEY COULD SQUEEZE FROM NEGOTIATIONS. WHEN PRICES WERE HIGH, THE PROGRAMS ENCOURAGED OVER-PRODUCTION; WHEN PRICES WERE LOW FUNDS FOR BUILDING STOCKPILES WEREN'T ADEQUATE ENOUGH TO SOUP UP THE EXCESS OUTPUT AND PRODUCING NATIONS WERE LIKELY TO BICKER AMONG THEMSELVES CONCERNING THE ALLOCATION OF MARKETS.

5. TODAY, THERE IS A NEW ELEMENT IN THE PICTURE, THE TREMENDOUS CASH SURPLUSES BEING BUILT UP BY OIL-RICH MEMBERS OF THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES. AND THE CURRENT CAMPAIGN SEEKS TO DRAFT SOME OF THOSE FUNDS TO SUPPORT PRODUCERS' CARTELS ALONG OPEC LINES.

6. THUS, WHEN SECRETARY OF STATE KISSINGER SUGGESTS A FLOOR PRICE UNDER OIL, IT FALLS IN LINE WITH THE THINKING NOW PREVALENT IN THE DEVELOPING COUNTRIES. THIS DOESN'T MEAN, HOWEVER, THAT THERE IS ANY AGREEMENT CONCERNING WHERE ANY FLOOR SHOULD BE. OPEC NATIONS, FOR INSTANCE, DON'T EVEN ACKNOWLEDGE THAT OIL PRICES MAY EVER FALL WITHIN SHOOTING DISTANCE OF SOME OF THE OIL FLOOR PRICES WHICH HAVE BEEN MENTIONED.

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7. CURRENTLY, THE CAMPAIGN FOR FLOORS UNDER NOT JUST OIL BUT ALL RAW MATERIALS COME FROM THREE DIRECTIONS.

7A. --COMMODITY PRODUCING NATIONS SUCH AS ZAMBIA (COPPER), GHANA (COCOA) AND BRAZIL (COFFEE) HAVE ALWAYS SUPPORTED SUCH IDEAS AS LONG AS THEY INVOLVED INCREASING PRICES TO A RATE ABOVE WHATEVER THE MARKET WAS DICTATING AT THE TIME.

7B. --THE UNITED NATIONS, WITH ITS UNITED NATIONS CONFERENCE FOR TRADE AND DEVELOPMENT IN THE VAN.

7C. WITHIN OPEC, WITH ALGERIA FAR AND AWAY THE MOST

ACTIVE IN THIS REGARD.

8. RECENTLY MORE THAN A 100 DEVELOPING NATIONS MET IN DAKAR, SENEGAL. FIVE DAYS OF INTENSE DISCUSSION LED TO A DECLARATION THAT "THE RECOVERY AND CONTROL OF THEIR NATURAL RESOURCES HELD THE KEY TO THEIR ECONOMIC FREEDOM." IN PLAIN ENGLISH, THIS MEANT THAT THESE NATIONS WANTED THE RIGHT TO HIKE PRICES ON THE RAW MATERIALS THEY HAD TO SELL, IN THE SAME CARTELIZATION MANNER WHICH HAS CHARACTERIZED OPEC'S CONTROL OF OIL.

9. BRITAIN'S HAROLD WILSON WAS ALARMED ENOUGH AT THE PROSPECT THAT HE IMMEDIATELY CALLED FOR AN EVALUATION OF THE COMMODITY SITUATION BY THE BRITISH COMMONWEALTH. THE AIM WOULD BE TO PREPARE THE COMMONWEALTH'S OWN PROGRAM TO STABILIZE COMMODITY PRICES. UNLESS GUARANTEES OF PRICES WERE EXTENDED TO PRODUCERS, THEY WOULD FORM CARTELS TO PUSH UP PRICES, HE WARNED.

10. ONE MIGHT DRAW IRONIC CONCLUSIONS FROM AN ATTEMPT TO STEM PRICE RISES BY EXTENDING PRICE INCREASES FIRST. THE PRIME MINISTER'S PROPOSAL SEEMS TO HAVE BEEN AS HASTILY CONCEIVED AS WAS SECRETARY OF STATE KISSINGER'S PROPOSAL TO ELIMINATE FREE MARKET PRESSURES UPON OIL SHOULD THEY GAIN STRENGTH. ONE MIGHT ASK, OF COURSE, THAT IF A FLOOR PRICE IS NECESSARY TO ENCOURAGE INVESTMENTS AIMED AT EXPANSION OF OIL PRODUCTION, THEN
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WHY NOT A FLOOR PRICE UNDER STEEL TO ENCOURAGE NEW EXPANSIONS, OR A FLOOR PRICE UNDER NITROGENOUS FERTILIZER, SINCE THIS IS IN SHORT SUPPLY AND THE FLOOR MIGHT ENCOURAGE MORE EXPANSIONS?

11. OBVIOUSLY, ONE COULD SUGGEST A WHOLE RANGE OF FLOORS WITHOUT TRYING VERY HARD. COMMODITY PRODUCERS IN THE THIRD WORLD ARE DOING JUST THAT. LAST MONTH, THE 87-NATION UNCTAD HELD A 12-DAY MEETING AT WHICH IT FORMULATED ITS CAMPAIGN FOR COMMODITY AGREEMENTS COVERING 18 COMMODITIES. THIS CALLS FOR ESTABLISHMENT OF AN \$11 BILLION FUND TO ACCUMULATE BUFFER STOCKS OF THESE 18 COMMODITIES WHICH ACCOUNT FOR 60 OF WORLD TRADE IN NON-OIL RAW MATERIALS. INVOLVED ARE: CORN, WHEAT, RICE, SUGAR, COFFEE, COCOA, TEA, COTTON, JUTE, WOOL, RUBBER, COPPER, LEAD, ZINC, TIN, BAUXITE, ALUMINA AND IRON ORE.

12. UNCTAD'S SECRETARY-GENERAL, GAMANI COREA, AN ECONOMIST FROM SRI LANKA, IS A PERSUASIVE, HARD-WORKING COMMODITY AGREEMENT SALESMAN WHO MAKES AN APT PARTNER FOR ALGERIA'S PRESIDENT BOUMEDIENNE IN THIS PARTICULAR AREA. BOTH OF THEM ARE WORKING WITH ALL THE APPLICATION OF CAR SALESMEN WHO FIND THEMSELVES WITH A LOT FULL OF GAS

GUZZLING STATION WAGONS WHICH MUST BE MOVED.

13. SECRETARY-GENERAL COREA, HOWEVER, IS MEETING MARKED DISINTEREST ON THE PART OF SUCH RICH NATIONS AS THE UNITED STATES, JAPAN AND WEST GERMANY. HIS PLAN CALLS FOR BOTH PRODUCERS AND CONSUMERS TO KICK IN THAT \$11 BILLION TO ACQUIRE THE BUFFER STOCKS. INDUSTRIAL NATIONS HAVE MORE CONSTRUCTIVE USES FOR THEIR FUNDS. THEY DEFINITELY ARE NOT ENTHUSED ABOUT SPENDING A LOT OF MONEY IN PROGRAMS AIMED AT INCREASING THE PRICES PAID BY THEIR MANUFACTURERS AND CONSUMERS FOR RAW MATERIALS

14. BUT THAT RECENT DAKAR MEETING HAD A SPECIFIC AIM. IT WAS TO ANALYZE HOW RAW MATERIALS PRODUCERS COULD GO AHEAD WITH THEIR OWN CARTEL SCHEMES, IF RICH COUNTRIES BALKED AT SUPPORT. OIL SURPLUSES WOULD BE ATTRACTED TO STAKE BUFFER STOCKS, ACCORDING TO THIS LINE OF THINK-UNCLASSIFIED

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ING.

15. THIS IS WHERE ALGERIA ENTERS THE PICTURE. PRESIDENT BOUMEDIENNE SEES HIMSELF AS AN ECONOMIC CRUSADER WHO IS CARRYING THE SWORD FOR THE CAUSE OF THE NATIONS OF THE THIRD WORLD.

16. WHEN THE OPEC SUMMIT OPENED HERE, PRESIDENT BOUMEDIENNE CLEARLY SHOWED HIS INTENTIONS. HE CONDITIONED DEMANDS BY INDUSTRIALIZED NATIONS FOR AN OIL PRICE FREEZE AND POSSIBLY EVEN FOR A DECREASE IN OIL PRICES UPON RICH COUNTRIES ACCEPTING HIS IDEA OF THEIR OBLIGATIONS TO THE THIRD WORLD. THESE INCLUDED, HE DECLARED, THE SUPPORT OF RICH COUNTRIES "TO SUSTAIN AT A FAIR LEVEL THE PRICES OF RAW MATERIALS FROM THE THIRD WORLD COUNTRIES."

17. PRESIDENT BOUMEDIENNE HAMMERS AWAY AT THIS THEME FOR CREATION OF "A NEW ECONOMIC ORDER." HE MAKES NO SECRET OF HIS SUPPORT FOR THAT UNITED NATIONS GENERAL ASSEMBLY APPROVED CHARTER OF LAST DECEMBER WHICH UPHOLDS THE RIGHT OF STATES TO ESTABLISH PRIMARY COMMODITY PRODUCERS' ASSOCIATIONS.

18. IF RICH NATIONS LIKE THE UNITED STATES EXPECT COOPERATION FROM OPEC CONCERNING OIL, SAYS PRESIDENT BOUMEDIENNE, THEN THEY MUST "ENABLE THE DEVELOPING COUNTRIES TO MOBILIZE THEIR RAW MATERIALS FOR THE BENEFIT OF THEIR OWN ECONOMIES, WHICH IMPLIES THAT THE SELLING PRICE FOR THEM SHALL BE RAISED AND THEIR REAL VALUE SAFEGUARDED AND THAT THE INDUSTRIALIZED COUNTRIES

SHALL DESIST FROM OBSTRUCTING ACTION BY PRODUCERS'

UNIONS IN THE DEVELOPING COUNTRIES."

19. IN BEHIND-THE-SCENES DISCUSSIONS, PRESIDENT BOUMEDIENNE HAS BEEN TELLING HIS OPEC PARTNERS THAT THEIR BASIC INTERESTS LIE WITH THE THIRD WORLD, THAT THEY SHOULD CONTRIBUTE HANDSOMELY TO BUFFER SCHEMES AND ANY OTHER FINANCIAL SUPPORT IDEAS WHICH MIGHT HELP THIRD WORLD COUNTRIES TO SQUEEZE MORE REVENUES FROM
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RICH COUNTRIES SUCH AS THE UNITED STATES.

20. VENEZUELA ALREADY IS CONTRIBUTING TO SUCH A SCHEME. IT IS FINANCING COFFEE BUFFER STOCKS FOR SOME OF ITS LATIN AMERICAN NEIGHBORS. THERE ARE INDICATIONS THAT SEVERAL ARAB NATIONS MAY HELP GUINEA TO DEVELOP A RICH PHOSPHATE CONCESSION. SINCE ARAB MOROCCO ALREADY IS A KEY FACTOR IN THE PHOSPHATE MARKET, IT MAY NOT BE DIFFICULT TO ORGANIZE A PHOSPHATE PRODUCERS' CARTEL.

21. THE EUROPEAN COMMON MARKET ALONG WITH 46 COUNTRIES IN AFRICA, THE PACIFIC AND THE CARIBBEAN ALSO IS PARTICIPATING IN A PRICE SUPPORT PROGRAM OF SORTS, CALLED "STABEX." IN AN AGREEMENT SIGNED LAST WEEK IN LOME, THE CAPITAL OF TOGO, THE EUROPEAN NATIONS AGREED TO FUND THE \$4.07 BILLION STABILIZATION PROGRAM FOR FIVE YEARS. COUNTRIES WHICH FIND THEIR REVENUES FROM RAW MATERIAL EXPORTS TO THE COMMON MARKET REDUCED WILL RECEIVE PAYMENTS FROM THE FUND. IN GOOD YEARS THEY WILL BE EXPECTED TO REIMBURSE THE FUND.

22. PRICES OF RAW MATERIALS HAVE DECLINED BY WELL OVER 30 FROM YEAR AGO LEVELS. THIS IS PLAYING A ROLE IN DEMANDS BY PRODUCERS THAT FLOOR PRICES AND COMMODITY AGREEMENTS BE INTRODUCED TO COVER THEIR PRODUCT. HOWEVER, IT MIGHT BE WELL TO REMEMBER THAT SOARING COMMODITY PRICES ONE AND TWO YEARS AGO HELPED TO FIRE THE INFLATIONARY BINGE WHICH HAS CAUSED SO MUCH TROUBLE IN THE WORLD. THUS THE COMMODITY SLUMP IS NOT ONE FROM A LOW LEVEL TO NADIR BUT FROM RECORD LEVELS TO ONE WHICH MOST AMERICAN IMPORTERS NOW WELCOME. FEW OF THE COMMODITY PRODUCERS WERE TRYING TO EASE THE LOT OF CONSUMERS WHEN PRICES ESTABLISHED NEW HEIGHTS A WHILE AGO.

23. ONE SHOULD REALIZE THAT THE PRESENT FUSS ABOUT COMMODITIES PRICES INVOLVES MUCH MORE THAN SIMPLE PRICE HIKES. ALGERIA AND ITS COHORTS ARE SEEKING A BASIC

RESTRUCTURE OF THE WHOLE WORLD ECONOMIC ORDER. SIMPLE ONE-SHOT PRICE HIKES AREN'T GOING TO BE ENOUGH TO
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SATISFY THEM. HOW IT CONCERNS THE STANDARD OF LIVING OF
THE INDUSTRIALIZED WORLD IS OF NO IMPORTANCE TO THE
PROSPECTIVE PRICE STABILIZERS.

24. SO DON'T CHEER TOO LOUDLY IF ANY OIL PRICE FLOOR
EMERGES FROM THE CURRENT ROUND OF DIPLOMATIC ACTIVITY.
IT COULD BE THE PRELUDE TO SOME OTHER PRICE FLOORS
WHICH YOU MIGHT NOT LIKE AT ALL. (END TEXT). INGERSOLL

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